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The Honorable Senator Anna Caballero
State Capitol, Room 5052
Sacramento, CA 95814

CC: Members, Assembly Banking and Finance Committee
Members, Assembly Judiciary Committee
Michael Burdick, Assembly Banking Committee
Jith Meganathan, Assembly Judiciary Committee
Colleen Monahan, Department of Business Oversight
Bret Ladine, Department of Business Oversight

Dear Senator Caballero,

Thank you for including Earnin in the stakeholders process of crafting SB 472. I'd like to provide some background on what we stand for and what we currently offer.

Earnin started in 2013 on the premise of fighting for financial justice for everyday people. Paychecks and bills are usually misaligned. This month most people got paid on the 5th while rent was due on the 1st. This is why we created a service that allows people the flexibility to access their pay when needed.

Earnin uses technology to drive financial fairness in numerous ways:

- We prevent overdrafts via low bank balance alerts
- We negotiate medical bills as deductibles are often unaffordable
- We match users with financial aid that they would have otherwise not known about
- We help our customers budget with a financial calendar to track upcoming bills
- We offer cashback on debit cards, as most rewards come from credit cards that our customers don't have access to

Earnin seeks to meet people where they need without the additional burden of fees. This is why we have a pay-what-you-choose, no mandatory fee model.

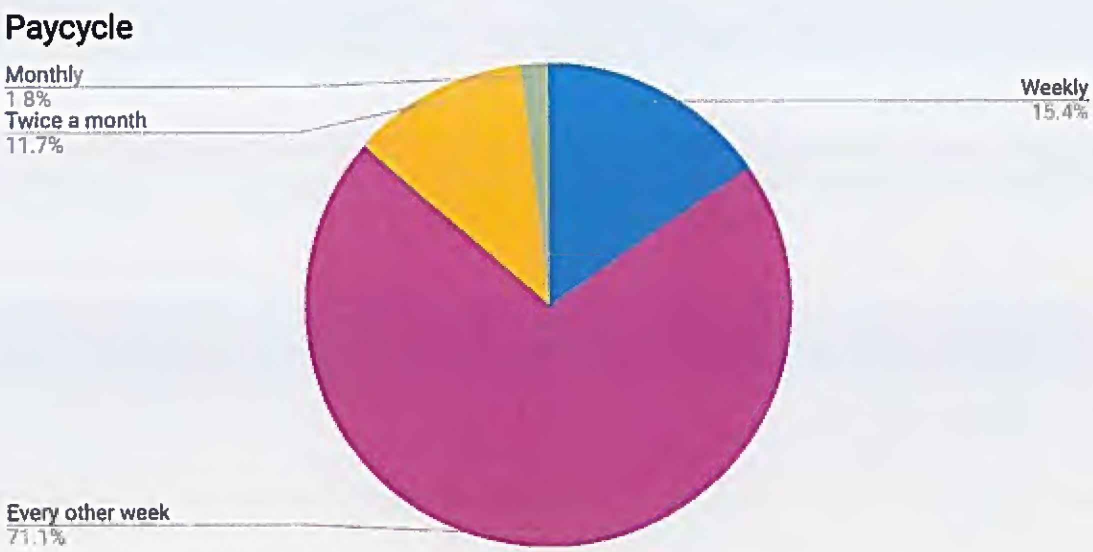
SB 472 addresses earned income access. This is an important societal issue. The federal reserve has found that 40% of American adults cannot afford $400 in an emergency and 78%

of Americans live paycheck to paycheck.[1,2] Earned income access attempts to address this problem by allowing people to use the money they have already earned.

We appreciate that SB 472 recognizes that earned income belongs to the employee immediately after they have worked and that access to the money one has already earned is not a loan. We also appreciate that the bill recognizes the importance of the direct-to-consumer model, as this model is inclusive and enables small business employees, as well as government employees to have access to earnings, without employer integration.

While on balance the bill is beneficial, it would be remiss of us to not address areas that may cause harm to consumers. We have three primary areas of concern:

1. By putting a cap on access at 50% of gross income, SB 472 will make it more difficult to pay rent. Rent and bills are monthly while most people are paid every other week. This means rent is often due before payday. In April 2019, 52% of people with bi-weekly paychecks (71% of Earnin's customers) had rent due in the 7 days prior to payday.



Sample size: 397K customers

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1 https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf

2 https://www.forbes.com/sites/zackfriedman/2019/01/11/live-paycheck-to-paycheck-government-shutdown/#33eb0ea64f10

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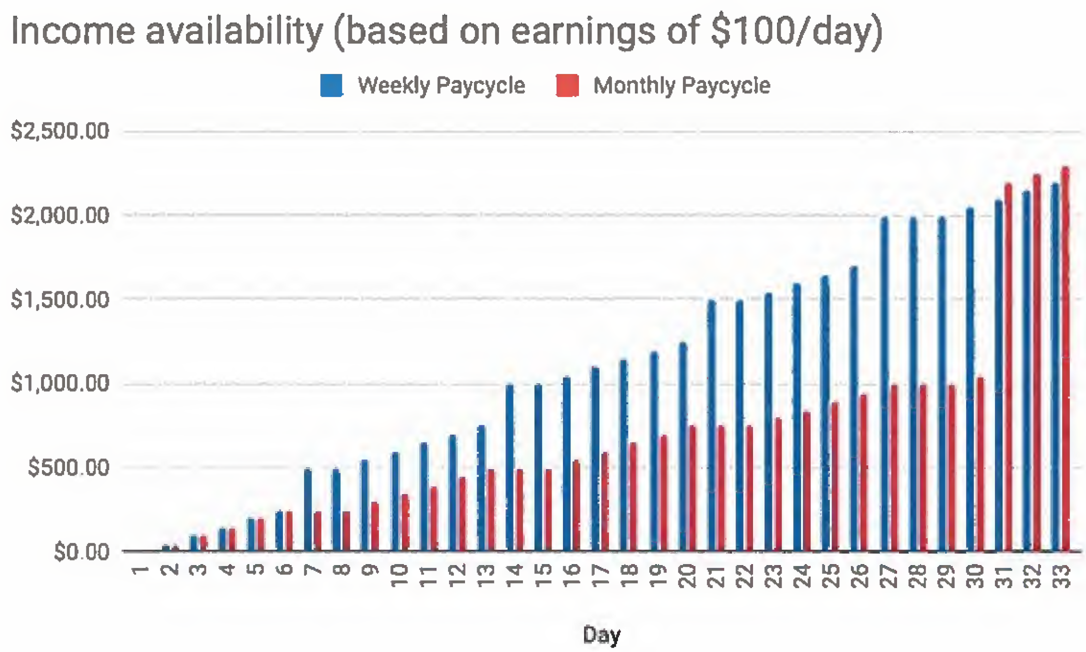
According to HUD, half of all renters spend more than 30% of their monthly income or over 60% of a paycheck on rent[3]. By holding back 50% of one's paychecks, the bill's restrictions will make it difficult for people to pay their rent on time.

The 50% holdback also puts consumers who are paid monthly (such as teachers and government workers) at a disadvantage compared to those paid weekly, as they will have access to less of their pay.



Consequently, SB 472 will make it difficult for schools and small and medium-sized businesses to compete for employees. Larger companies such as Uber, Lyft, Postmates, Doordash, and Instacart that have a weekly pay cycle, now let their workers access their pay daily and even multiple times a day. They have built this capability in order to attract people to work through their platforms. Small and medium-sized companies don't have the resources needed to build this capability. If third parties are not able to offer similar services for their employees, people may choose to work for one of the above-mentioned companies over other small or medium-sized businesses.

If employees of small and medium-sized businesses are not able to access these services through earned income access providers in an equivalent manner, they may choose to work for one of the above-mentioned companies over small or medium-sized businesses.

[3] https://www.huduser.gov/portal/pdredge/pdr_edge_featd_article_092214.html

Removing or relaxing the caps on the amount and frequency accessible, small and medium-sized businesses will be in a better position in comparison to larger companies.
2. By restricting fees to $15 per month without consideration for the amount of usage, SB 472 will limit the amount that providers will make available, thus increasing overdraft fees and payday loans. When a consumer needs access to her earned income, and it's not available, she will have no choice but to go to the more expensive alternatives - such as overdraft and payday loans. Overdraft fees are typically $35 for a $50 transaction[4]. The CFPB also found that the average fee on a payday loan is $52.50[5].

If grocery stores were limited in how much they could charge customers per month, they would restrict the number of groceries customers could buy. If earned income providers become regulated on fees per month, they will reduce customers' access to earnings. We estimate that a $15 per month fee limit would generate a $141 - $204 per month gap in access. Filling that gap with overdrafts and / or payday loans would cost consumers $25 - $122 extra per month. The analysis is attached to this letter. An independent study by Hi Charlie[6] found that Earnin users overdraft 50% less than other similar people.

3. The 2-day notification requirements of the bill will prevent people from using the service when they need it the most. If a consumer were to use the product the day before payday, the 2-day notification would not be possible.

We suggest changing the notification requirement such that "*A provider shall notify a worker of the total amount due and the date on which the provider will attempt to collect that amount from the consumer by the latest of i) two days before the date of the payment is due, or ii) the date on which the wages or earnings are advanced.*".

It is important for consumers to have access to their pay the day before payday when their bank balances are at their lowest as there can be expenses and emergencies on any day.

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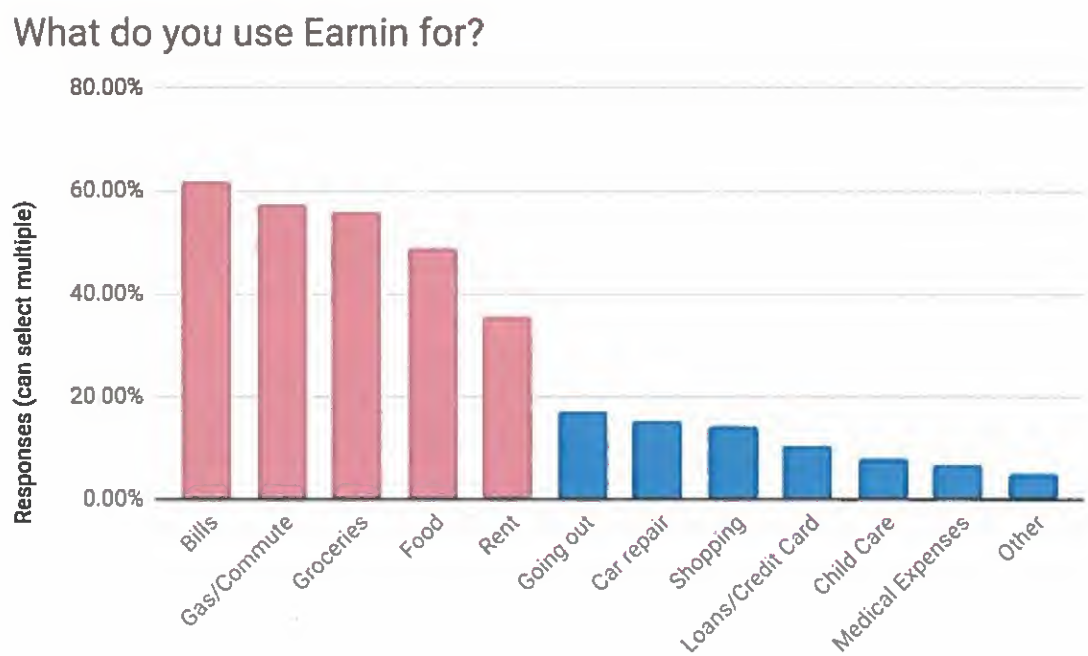
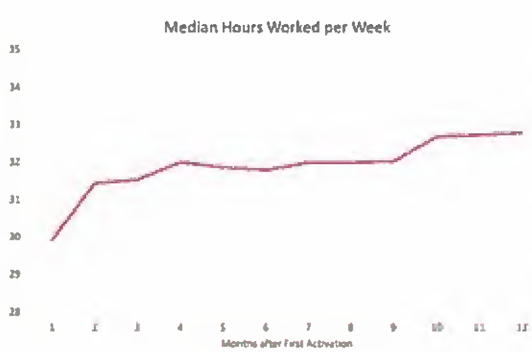
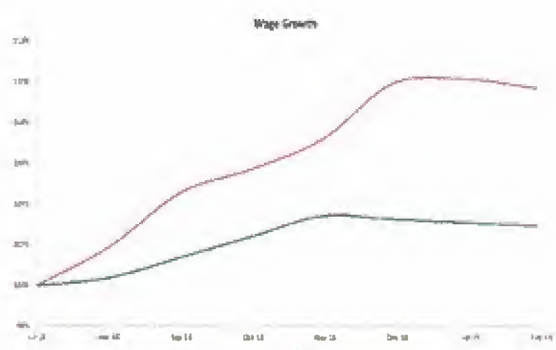
4 https://files.consumerfinance.gov/f/201407_cfpb_report_data-point_overdrafts.pdf page 9
5 https://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf page 17
6 https://www.hicharlie.com/blog/how-to-stop-overdrafting/

What do you use Earnin for?



Consumers often access their pay in order to buy gas. This improves attendance and income. We hear that consumers previously missed work prior to payday because they could not afford gas. We have found that hours worked and wages increase once someone uses our app.





Thank you for your time in crafting this bill to protect our consumers. While SB 472 provides many benefits, we believe our suggestions backed by data will enhance the outcomes for consumers even more. We respectfully ask that you consider these amendments in SB 472 so

that the people who are working but not able to make ends meet are able to utilize the services we have built and are not forced into difficult situations and expensive products.

Sincerely,

Ram Palaniappan
CEO / Founder, Earnin

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ATTACHMENT A

The Cost of Payday Lending is		
Loan Size	$392	$392
Cost per $100	$14.40	$14.40
Loans per Month	1.7	1.7
Fees per Borrower per Month	**$94**	**$94**
The Cost of Similar Transactions with Stakeholders Could be		
Loan Size	$392	$392
Share of Payday Cost Required by Stakeholders	25%	33%
Cost per $100	$3.60	$4.80
Fees per Borrower per Month	**$23**	**$31**
Stakeholders could be cheaper than Payday by	**$70**	**$63**
Percent of Cost Decrease	*75%*	*67%*
If Stakeholders were limited to $14 per user per month, they		
would be willing to "lend" less, specifically		
Fees per Month (Capped)	$15	$15
Cost per $100	$3.60	$4.80
Maximum a Stakeholder would "Lend"	**251**	**188**
That leaves an capital access gap of	**-$141**	**-$204**
Percent Lost Access to Capital	*-36%*	*-52%*

To plug that gap with overdrafts would cost		
Average Overdraft Size	$50	$50
Average Overdraft Fees	$34	$34
Overdrafts Required to plug gap	2.8	4.1

Fees for Overafting the Gap Once per Month	**$96**	**$139**
Using overdrafts would cost an additional	**$88**	**$122**
To plug the gap with a payday loan would cost		
Loan Size	$141	$204
Cost per $100	$14.40	$14.40
Loans per Month	1.7	1.7
Fees per Month per Borrower	$34	$49
Using payday loans would cost an additional	**$25**	**$33**

IMPACT OF $15 REVENUE PER USER CAP		
Share of Payday Cost Required by Stakeholders	25%	33%
Capital Access Gap	-$141	-$204
Additional cost to close gap with Overdrafts	$88	$122
Additional cost to close gap with Payday Loans	$25	$33